

Message Text

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44

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 /111 W

----- 041066

R 011728Z AUG 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3443

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 11916

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECONM UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUG 1

BEGIN SUMMARY: AS THE WEEK PROGRESSED THE VULNERABLE
POSITION OF STERLING WAS AGAIN WITNESSED WITH THE POUND

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COMING UNDER STRONG MARKET PRESSURE AS THE DOLLAR FIRMED.

FRIDAY, AUGUST 1, MARKED THE BEGINNING OF THE GOVERNMENT ANTI-INFLATION PROGRAM WITH MOST OBSERVERS TAKING A "WAIT AND SEE" ATTITUDE. IN ADDITION TO PROMISING PUBLICATION OF DETAILED GUIDELINES ON HOW EMPLOYERS AND UNIONS SHOULD INTERPRET THE WAGE GUIDELINES, IT WAS REVEALED THAT THE GOVERNMENT IS PREPARED TO INTRODUCE A PACKAGE OF MEASURES TO COMBAT UNEMPLOYMENT IF THE CURRENT INCREASES ARE NOT REDUCED BY AUTUMN. IN ADDITION, IT IS EXPECTED THAT A TEMPORARY EMPLOYMENT SUBSIDY SCHEME WILL BE ANNOUNCED NEXT WEEK. END SUMMARY.

1. PRESSURE ON STERLING: THE POUND CAME UNDER PRESSURE AGAIN THIS WEEK AFTER THREE WEEKS OF RELATIVE STABILITY. STERLING'S POSITION VIS-A-VIS THE DOLLAR WAS PARTICULARLY WEAK BUT THIS WAS DUE MORE TO A STRONG DOLLAR RATHER THAN RENEWED MARKET PESSIMISM AGAINST STERLING PER SE. THE STERLING/DOLLAR RATE FELL 263 POINTS OVER THE WEEK (7/24-7/31) REFLECTING THE DOLLARS GENERAL OVERALL STRENGTHENING AGAINST THE CONTINENTAL CURRENCIES. THE CURRENT MOVEMENTS AGAINST THE DOLLAR ARE ALSO BEING ATTRIBUTED TO TWO ADDITIONAL FACTORS: (1) OVER THE PAST THREE TO FOUR WEEKS, THERE HAS BEEN STEADY SUPPORT BY OIL COMPANIES' PURCHASES OF STERLING NEEDED FOR ROYALTY PAYMENTS; AND (2) ADDITIONAL SUPPORT, ALTHOUGH TO A LESSEER DEGREE, BY THE EXCHANGE MARKET ACTIVITIES OF SOME CONTINENTAL BANKS WHICH HAD GONE LONG ON DOLLARS AND SHORT ON POUNDS VERY EARLY IN THE MONTH, AND GRADUALLY, OVER THE REMAINDER OF JULY, RE-PURCHASED STERLING TO SQUARE THEIR BOOKS. BOTH THESE DEVELOPMENTS HAVE NOW RUN THEIR COURSE, REMOVING THE EARLIER SUPPORT STERLING RECEIVED FROM THEM. ON A TRADE WEIGHTED BASIS, STERLING DEPRECIATED 0.4 PERCENTAGE POINTS, MUCH LESS THAN MIGHT BE EXPECTED GIVEN ITS DETERIORATED POSITION AGAINST THE DOLLAR.

2. NATIONALIZED INDUSTRIES SWIM IN RED INK: THE FULL EXTENT OF THE LOSSES INCURRED BY BRITAIN'S NATIONALIZED INDUSTRIES DURING THE 1974-75 FISCAL YEAR BECAME APPARENT THIS WEEK. LED BY THE POST OFFICE, WHICH LOST 307 MILLION POUNDS AND THE ELECTRICITY BOARD WITH A LOSS OF UNCLASSIFIED

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258 MILLION, THE COMBINED LOSSES IN COAL (2.8 MILLION), GAS (44.2 MILLION), THE RAILROADS (158 MILLION), ELECTRICITY AND THE POST OFFICE LOSSES AMOUNTED TO 770 MILLION POUNDS OR NEARLY \$1.7 BILLION. THIS SUM WAS PARTIALLY OFFSET BY THE 89 MILLION POUND PROFIT EARNED BY BRITISH STEEL, THE ONLY NATIONALIZED INDUSTRY IN THE BLACK. HOWEVER, WITH THE PRESENT RECESSION BSC IS NOW INCURRING LOSSES AT AN ANNUAL RATE OF 250 MILLION POUNDS. THE MAGNI-

TUDE OF THE LOSSES WAS ATTRIBUTED BY THE DIRECTORS OF
THESE INDUSTRIES TO THE COST INCREASE RESULTING FROM
LARGE WAGE SETTLEMENTS WHICH COULD NOT BE REFLECTED IN
HIGHER PRICES.

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3. EXCHANGE RATE AND GOLD:

(DATES)	7/24	7/31	
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EXCHANLE

ATE	\$2.1800	\$2.1537	DOWN	\$0.0263
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EFFECTIVE DEPRECIATION

(PERCENT)	25.8	26.2	
WIDENED	0.4		

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GOLD	\$165.25	\$166.90	UP	\$1.65
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4. FORWARD DISCOUNT ON STERLING:

(DATES)	7/24	7/31	
CHANGE			

1 MONTH	0.70	0.82	UP	0.12
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3 MONTHS	2.03	2.27	UP	0.24
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6 MONTHS	4.05	4.25	UP	0.20
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(ALL FIGURES IN CENTS)

5. EURODOLLAR INTEREST RATES:

(DATES)	7/24	7/31	
CHANGE			

1 MONTH	6-1/2	6-3/8	DOWN	1/8
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3 MONTHS	7-1/4	7	DOWN	1/4
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6 MONTHS	8-1/4	8	DOWN	1/4
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6 LOCAL AUTHORITY DEPOSIT RATES:

(DATES)	7/24	7/31	
CHANGE			

1 MONTH	10-7/16	10-3/8	DOWN	1/16
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3 MONTHS	10-5/8	10-5/8	UNCHANGED	
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6 MONTHS	10-13/16	10-3/4	DOWN	1/16
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7. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11 PERCENT AS OF FRIDAY, AUGUST 1.

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Margaret P. Grafeld
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06 JUL 2006

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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING AUG 1 BEGIN SUMMARY: AS THE WEEK PROGRESSED THE VULNERABLE
TAGS: ECON, UK
To: STATE
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Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006